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C O N F I D E N T I A L SECTION 01 OF 04 MANILA 005137

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STATE FOR EAP DAS JOHN
STATE ALSO FOR INR/EAP, EAP/RSP, AND EAP/MTS
NSC FOR GREEN
SECDEF/OSD/ISA/AP FOR ALLEN

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TAGS: [PREL](#) [PTER](#) [PINS](#) [EAID](#) [MOPS](#) [ECON](#) [EFIN](#) [RP](#)
SUBJECT: SCENESETTER FOR EAP DEPUTY ASSISTANT SECRETARY OF
STATE ERIC JOHN

Classified By: (U) Charge d'Affaires, a.i., Paul Jones
for reasons 1.4(b) and (d).

1. (C) Summary. Our strategic relations with the Philippines are important to both countries, and we seek to work even more constructively not only bilaterally but in a variety of regional and international fora as well. We have a comprehensive program of engagement with the GRP -- ranging from counterterrorism cooperation and defense and police reform to discussions on trafficking in persons and Trade and Investment Framework Agreement (TIFA) negotiations. You will see most of the major players during your visit: Executive Secretary Ermita; Foreign Secretary Romulo; Defense Secretary

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Cruz; National Security Advisor Gonzales; and Armed Force of the Philippines (AFP) Chief of Staff Senga. You should use your meetings to push for institutional reform, TIP convictions, and anti-terrorism legislation. We suggest you convey our confidence in the constitutional framework for resolving political differences, and our opposition to martial law or emergency rule, which would undermine the fight against terrorism, defense reform, and prospects for better economic development. End Summary.

DOMESTIC DISTRACTIONS

2. (C) President Arroyo continues to fight for her political viability, as she struggles against allegations that she engaged in cheating to win the 2004 presidential election as well as other allegations that were at the basis of the failed impeachment effort earlier this year. There is growing concern that these domestic woes are increasingly distracting her and senior officials from the GRP's substantive agenda, which we share in many important areas. The Congress and nation are now set on a course of constitutional change, which potentially could transform the Philippines into a parliamentary system, with or without a President, within one to two years, and possibly create a truly federal state. Much legislative and political capital and attention will be focused on this process over the months ahead, another distraction to progress on important substantive goals as well as passage of needed legislation. GMA's political woes have not yet had a significant impact on the AFP and the Philippine National Police (PNP) -- our two principal counterterrorism partners -- but could have an effect over time. Either a declaration of martial law or a coup attempt would prove disastrous to either institution, as well as to investor confidence and to the Philippines' international image, as would the perhaps even more likely (but as yet still unlikely) scenario of emergency measures imposed by the GRP (septel).

STRATEGIC CONTEXT

3. (C) Despite never-ending domestic political dramas and tensions, the Philippines remains an important strategic partner, treaty ally, and a vibrant (if messy) democracy, as GRP officials will welcome again hearing from you. No matter how much the GRP and GMA herself claim to seek a balanced relationship among the US, PRC, and Japan, the US is virtually indisputably the Philippines' number one partner. Our views and opinions matter considerably here, as we have seen once again by recent efforts to get the USG to take sides in GMA's domestic dilemmas. Our security alliance remains robust and of importance to US troops and USG objectives as well as to those of the GRP in enhancing regional stability and in combating terrorism. We have worked together productively in regional and international fora, and need to continue to seek better ways to ensure even more effective communication and cooperation. As Foreign Secretary Romulo proudly noted to CDA on November 3, the GRP

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had voted with the US in 101/105 votes in the UNSC during its tenure. We will want to involve the GRP closely in the US-ASEAN Enhanced Partnership, and should try hard to get the GRP to focus on a productive agenda during its tenure

beginning in summer 2006 as ASEAN Chair. The GRP has not always been a very pro-active partner in APEC -- its chairmanship of the APEC Anti-Terrorism Task Force from our perspective here has been notably lackluster -- but there is goodwill in the GRP to do still more. This will be a good opportunity to ask for and to discuss new ideas and initiatives for regional cooperation.

14. (C) Many observers here continue to obsess about the booming Philippine-PRC relationship, with numerous commentaries warning that this will come at a cost to the even more important US-Philippine ties. We should be prepared to discuss candidly our views of the PRC and its intentions within the region and globally, and to highlight the importance with which we view integrating the PRC ever more closely into the regional and international communities.

A REAL TERRORISM THREAT

15. (C) The terrorism threat here is real. Porous borders, weak institutions, fragile government, a long-running Muslim insurgency, and ever-present corruption make the Philippines highly vulnerable. Jemaah Islamiyah (JI) and Abu Sayyaf Group (ASG) terrorists continue to elude government forces in Mindanao, while the Communist Party of the Philippines/New People's Army (CPP/NPA) maintains a country-wide presence bent on destabilization. The Rajah Solaiman Movement (RSM) represents a significant worry because of its ties to foreign financing and the ability of its members -- Christian converts to Islam -- to "blend in." The Philippines has a recent history of terrorist attacks on its own territory. The February 28, 2004, bombing of Superferry 14, which killed over one hundred Filipinos, was the second worst terrorist attack in Asia after the October 2002 Bali bombings, while the February 14, 2005 "Valentine's Day" bombs in Manila and Mindanao killed and injured many shoppers and commuters.

16. (C) The GRP has, however, racked up some recent successes. On October 26, Philippine military and police arrested Ahmad Santos, the fugitive leader of RSM, and eight other suspected terrorists at a safe house in Zamboanga. On the same day, Philippine Air Force intelligence operatives seized Sattar Yusop, an ASG member under US indictment for his role in the Dos Palmas kidnappings. On October 28, a Philippine court convicted and sentenced to death three JI, RSM, and ASG terrorist for their roles in the 2005 "Valentine's Day" bombing in Manila (septel).

COMPREHENSIVE COUNTERTERRORISM ENGAGEMENT: USAID

17. (SBU) Our counterterrorism engagement in the Philippines ranges from humanitarian relief and economic development to military cooperation and public diplomacy. USAID's Livelihood Enhancement and Peace (LEAP) program reintegrated over 28,000 former Moro National Liberation Front (MNLF) combatants into productive society as successful farmers, and USAID stands poised -- should the GRP sign a peace agreement with the Moro Islamic National Liberation Front (MILF) -- to seek funding to provide similar assistance to the MILF.

JUSMAG - TRAINING AND REFORM

18. (C) Joint US Military Assistance Group-Philippines (JUSMAG-P) plays a vital role in our efforts to improve Philippine capabilities. The US-trained and equipped Light Reaction Companies (LRCs) and Light Infantry Battalions (LIBs) are the tip of the spear in the counterterrorism fight. Over the longer term, JUSMAG-P support for the Philippine Defense Reform (PDR) program will prove key to the GRP's ability to stand alone without US assistance, capable of meeting the needs of the Philippine people and serving as a reliable coalition partner.

JSOTF - INTELLIGENCE FUSION AND CIVIL MILITARY OPERATIONS

19. (C) In addition to helping the AFP fuse intelligence with operations in the hunt for wanted terrorists, Joint Special Operations Task Force-Philippines (JSOTF-P) has broadened its scope to include civil-military operations in Mindanao. This approach, coupled with USAID's longer-term programs, attacks the environment in which the terrorists thrive. JSOTF-P's efforts in support of the AFP will initially focus on the island of Jolo in the Sulu Archipelago, an established ASG stronghold, with the additional goal of improving perceptions of the AFP and GRP among the citizens of Mindanao.

PUBLIC DIPLOMACY - GETTING THE STORY OUT

10. (SBU) The Philippines is an exuberant media environment. Much of our effort ends up devoted to ensuring that

journalists get their facts straight. However, we also take every opportunity to get our side of the story out. Our initiatives, such as "Muslim Life in the Philippines," have found a ready audience, and we have in the works a film chronicling the successful joint US-AFP effort to defeat the ASG on Basilan. PAS works hand-in-glove with both USAID and JSOTF-P to ensure that perceptions of our efforts on every front are positive. There will be a high level of interest in your press conference.

ECONOMY NOT STRONG, BUT STEADY

¶11. (U) Although the Philippine economy is growing by nearly 5% each year, it is constrained by massive debts to both domestic and foreign bond-holders. Combined liabilities of the government and state-owned enterprises equal 90% of GDP, and the debt-service payments on these loans gobble up a third of the annual budget. The just implemented expansion of the Value Added Tax to include fuel and power will help the GRP further reduce its fiscal deficit and increase spending on social services, such as health and education, and on the expansion and repair of roads and railway lines. Although the GRP has tried to soften the initial impact of the tax, there are signs of continuing public protest over the higher price of oil, and calls by political opponents to amend or repeal the VAT law because it accelerates inflation.

¶12. (U) A stronger, more stable economy could boost foreign direct investment to the Philippines, which flows in at a paltry level compared to other countries in East and Southeast Asia. To boost development and prosperity, the USG encourages economic reform initiatives toward greater privatization, trade liberalization, and open markets, and we have worked closely with GRP officials on the Philippines' Millennium Challenge Corporation concept paper focusing heavily on anti-corruption and revenue enhancement efforts. US firms account for the largest stock of FDI in the country, and the US is still the country's largest trading partner, counting trade in goods and services. But as you will hear from members of the American Chamber of Commerce, corruption is an admitted impediment to investors, along with the high cost of electricity, poor infrastructure, bureaucratic delays, weak enforcement of intellectual property rights, and an unpredictable legal system.

TRADE AND INVESTMENT FRAMEWORK AGREEMENT (TIFA)

¶13. (U) The USG addresses bilateral, sectoral, and even individual company issues through regular Trade and Investment Council meetings organized under the Trade and Investment Framework Agreement (TIFA). The USG provides advice and support for policy reform and projects through technical assistance, training, and development programs through USAID, which may include access to funds from the Millennium Challenge Account. Even so, there are prime opportunities in various fields, including information technology with the proliferation of call centers and back office operations, mineral extraction, energy development, agriculture, and the country's primary export -- semiconductors and electrical components. Working to the country's short-term financial advantage is the enormous influx of remittances from Filipinos living and working abroad, who are sending home over \$10 billion this year, which bolsters consumer spending, props up the peso, promotes development projects, and helps the country meet its financial obligations.

TRAFFICKING IN PERSONS (TIP)

¶14. (U) The Philippines is an origin point for internationally trafficked persons and also suffers from an internal TIP problem. Most victims are young women. The GRP is nonetheless publicly steadfast against TIP. In 2003, Congress passed Republic Act 9208, a comprehensive anti-trafficking law. However, the State Department designated the Philippines as a Tier 2 Watch List country in 2004 and re-designated it on the Tier 2 Watch List in 2005. You should underscore the seriousness of the TIP problem with GRP officials, including the possibility of a downgrade to Tier 3 next year. Ambassador John K. Miller of G/TIP is also scheduled to visit the Philippines December 3-6.

¶15. (SBU) The GRP's ability to address the problem is limited by poverty, unemployment, and socio-economic factors that encourage migration, a weak rule-of-law environment, and sex tourism. The GRP coordinates anti-TIP efforts through the Inter-Agency Council Against Trafficking (IACAT), which is chaired by the Secretary of Justice. GRP enforcement of its anti-trafficking law has increased as more law enforcement officers, prosecutors, and judges receive training. Although several TIP cases are pending, there have been no convictions under the anti-trafficking law yet. You

and Ambassador Miller can make even more explicit that convictions will be the most meaningful evidence of real progress in this important fight.

THEMES:
COUNTERTERRORISM COOPERATION
AND ANTI-TERRORISM LEGISLATION

16. (SBU) In your meetings with Executive Secretary Ermita, Foreign Secretary Romulo, National Security Advisor Gonzales, Defense Secretary Cruz, and AFP Chief of Staff Senga, you should stress our support for effective interagency counterterrorism cooperation. The Philippine House has consolidated its efforts behind one anti-terrorism bill, which is now out of Committee for consideration by the full House. However, there are five different bills pending in the Senate, three of them filed by the Opposition. Nominally pro-Arroyo Senator Manuel Villar is moving to consolidate these drafts into one bill. In your interactions with all your interlocutors and the press, you should stress the need to pass effective anti-terrorism legislation that will give law enforcement agencies the tools to fight and defeat terrorism.

CONSISTENT MESSAGE - "RULE OF LAW"

17. (C) Rumors continue to abound about GRP planning to impose emergency rule and Opposition efforts to foment a coup. Either emergency rule or a coup attempt would splinter the AFP and PNP, undermine the nascent reform efforts currently underway, intensify economic problems, fuel the Communist insurgency, and potentially plunge the country into turmoil. You should stress in each of your meetings the USG's confidence in the constitutional process in the Philippines, and firm opposition to any extraordinary measures.

18. (U) Embassy will separately provide an annotated schedule, with goals and talking points for each meeting.

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<http://www.state.sgov.gov/p/eap/manila/index.cfm>

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